RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 14, 1999 **LETTER 1282**

July 2 DJIA 11066.42; PTI 5377; A-D Ratio +4.13
July 9 DJIA 11193.70; PTI 5373; A-D Ratio +3.97
Dow Yield: 1.53%; Dow Price/Earnings: 27.2
Dow 144-day MA: 10045; Dow 34-day MA: 10777
Dow Times Book Value: 7.02; PTI 89-day exp. MA: 5350
Percentage of Undervalued Blue-chips: 4%
Gold 34-day MA: 264

GET ON THE NET: Events are moving very rapidly, and I continue to urge subscribers to please get on to my **daily web site.** The current volatile market picture can change in a week or even in a few days, and I attempt to cover the big picture in each daily web report. I make nothing from it whether you are on the net or not (it's free to full-term subscribers), but I do receive the satisfaction of knowing that my subscribers are up-to-date, daily, as to what's going on in these difficult and fast-moving markets.

THE PICTURE: Maybe this headline from the London *Economist* (July 3) says it all. The article starts, "If America is in the grip of a financial bubble -- as the *Economist* has long argued -- then Alan Greenspan is not the man to burst it."

But time and the bond market wait for no man. And the bond market has been doing Greenspan's work for him -- in that declining bonds have thrust rates above 6% again. Will declining bonds do it? Can rising rates force this irrepressible stock market back into a trading range -- or worse? Only time will tell. But the battle of bonds vs. stocks is definitely on.

Of course, there is also the question of valuation. Despite the booming economy (many now state that the US economy has reached a state of "perfection"), the value comparison between stocks and bonds has become acute. At the latest reading, the yield on the widely-watched S&P Composite has declined to 1.2%. This means that stock buyers are paying an incredible $83 for every $1 of S&P dividends. This compares with the guaranteed return of over 6% (free from state taxes) for the 30-year Treasury bond.

With this comparison in mind, it's clear that the stock market has totally dismissed the element of **risk.** Listen to this from the man who wrote the book on risk, Peter Bernstein (from his latest report, 575 Madison Ave., NYC 10006): *"An investor can always lose money in the bond market, but with current bond yields about quadruple the current income that stocks provide, time becomes a powerful ally in cushioning losses. Not even counting income from reinvested coupons, bond yields would have to rise to 7% two years from now and 9% five years from now before total returns would be negative on bonds purchased at 6%."*

The meaning of what Bernstein writes is clear enough. If rates were to rise to 7% two years from now you might lose a bit on bonds but the stock market would probably cost you a lot more. And if five years from now rates are 9%, you don't want to know where the stock market would be.

With it all, the **bubble psychology** in the market remains. And clearly, it will not easily be reversed. Nevertheless, bonds are heavy; they don't like what's going on. My feeling here is that the bond market will continue to push rates higher (1) until bond rates force the stock market into a trading range, or (2) until bond rates break the stock market, pulling the foundation out from under it and shoving it off the cliff into a primary bear market.

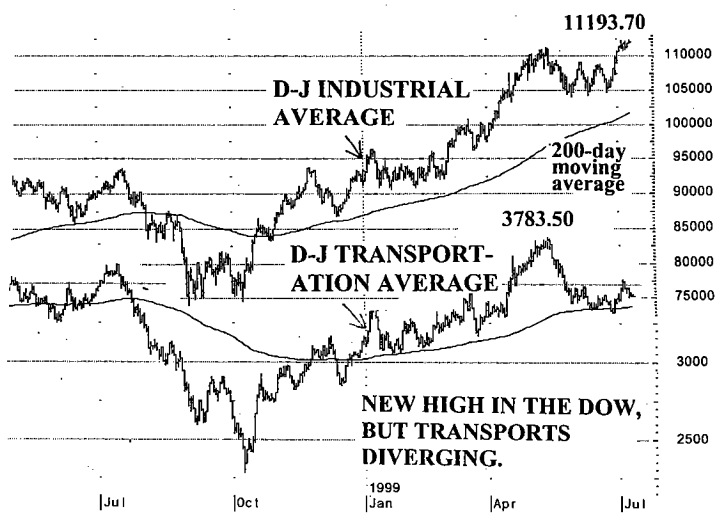
All right, discarding all opinions and forecasts, what's the real market story at this point? We have a new unconfirmed high in the Dow (unconfirmed by the Transports). We have new highs in both the S&P and the Nasdaq (unconfirmed by the advance-decline ratio). We have global stock markets improving (Nikkei up over 18000, Asian and European markets sharply higher). So what are we to believe? My best answer, and it's a simple one -- **just follow my Primary Trend Index.** It will tell us if the fun is to continue or whether the market (at least the US market) is running out of steam.

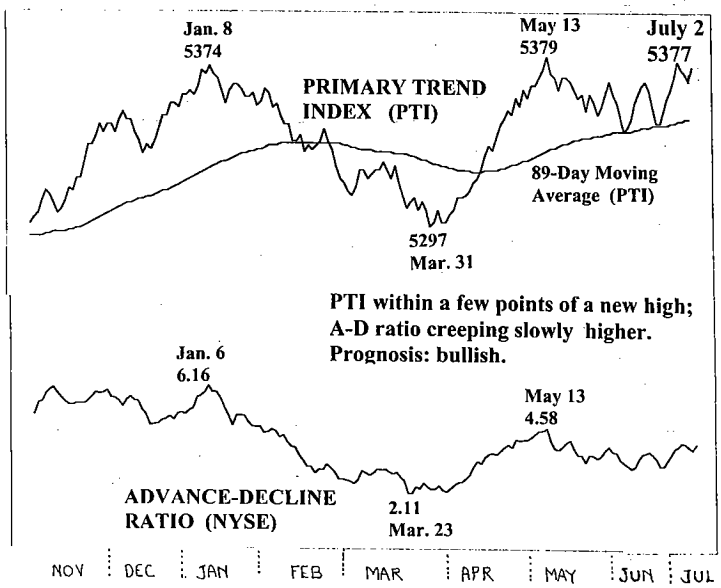
PRIMARY TREND INDEX: I started Dow Theory Letters in 1958, at a time when technical analysis was scorned, dismissed as voodoo nonsense, by almost everyone on Wall Street. In a series of over 30 articles published in **Barron's,** I attempted to demonstrate that technical analysis was a valid study. I wanted to show that the best forecaster of market trends lay within the action (particularly the internal action) of the market itself.

During the '60s, technical analysis gradually became more accepted. By the end of the '60s, technical analysis was actually becoming popular, and at about that time I felt that too many analysts were following the same indicators. I decided that I needed an indicator that was my own, one that only my subscribers would be privy to. I also decided that my indicator must be based on the only phenomena that I totally trust -- and that is **price action.**

I've never changed by opinion about price action. A thousand different indicators and studies have been advanced in this business, but the only ones that I've ever found reliable have to do with price action. Of course, price action is simply a **reflection of supply and demand.** Given a stock, if there are more buyers than sellers, that stock will go up. If there are more sellers than buyers, the stock will go down. These forces of supply and demand are always reflected in price action.

So I decided to construct an indicator based on eight different measures of price action. This indicator would not necessarily follow the exact direction of the Dow or the S&P or the Nasdaq,





but it would **identify the path of the broad primary trend of the market.** I would call this indicator my Primary Trend Index or PTI.

Next, I needed something which would identify the trend of the PTI. And I wanted to make it **simple.** I experimented with any number of moving averages. The one that worked best was an exponential 89-day moving average. I've been using the PTI with its moving average ever since 1971. They work.

You can have your own opinion of the market. It may be a good opinion or a lousy opinion. Or you might be absolutely correct -- but too early. William Hamilton, a great editor of the *WSJ,* once noted, "The graveyards of Wall Street are filled with the bodies of men who were right too soon."

I usually have an opinion about the market. I may love a market that is declining; I may hate a market that is advancing. For a long time I've felt that the current stock market is overvalued. But that's just my opinion, and the stock market couldn't care less. However, I have another axiom. It's this -- **"My Primary Trend Index is smarter than I am."** I've learned to respect the PTI, and I never take a position against it.

Last February 12 my PTI dropped below its moving average. What followed was a very strange period, one that I'd never seen before. The A-D ratio continued down while the big Averages advanced. Confusion reigned. Then on April 20 the PTI moved up through its MA again, and in so doing, it turned bullish. Which is where we are now -- although last week the PTI turned down.

The Nasdaq, Dow and the S&P all hit new highs on July 9. The bonds are in a downtrend and rates are rising. The Transports, as they did all last year, are lagging the Dow. In fact, we now have another major non-confirmation on the part of the Transports. The Utility Average hit a high on June 16, then declined sharply with the bonds, and is currently about 4% below its high. I continue to believe that most of the Internet stocks (the most speculative sector of this market) have topped out.

For my latest on the market, please turn to Late Notes on page 6.

COMPOUNDING: A few months ago I mentioned that I bought some 10-year T-notes for my two youngest kids. At that time the yield on the 10-year notes was 5.46%. But last week the yield on these same notes rose to 5.87%. As the yields rose, the market price of the notes declined. Time to panic? Time to dump the notes? Hardly. What I will do (and what I've been doing since 1982 with these accounts) is to **reinvest the interest in whatever securities look best at the time.** Back in the early '80s it was stocks that I was re-investing in, since stocks at the time were providing attractive yields. Right now what I buy (with most stocks yielding nothing) is either high-grade preferred stocks yielding 6% or more, or high-grade utilities yielding around 6%. This is all simply part of the compounding process.

I can't remember where I saw it, but a few months ago I saw a study which showed that in the compounding process, it is actually advantageous for the compounder if the market price of fixed-interest items decline. All this means is that the compounder can buy higher-yielding items as his interest or dividends come in. Ultimately, the advantage of buying higher-yielding items with the money coming in will far outweigh the fact that interest rates are rising at the moment. And, of course, in the case of bills, notes, or bonds, these all mature at par, meaning that no matter what you paid for them, these securities will always mature at par (par = 1000). Which is just another way of saying that unlike stocks, when you buy bills, notes or bonds you will always get your money back.

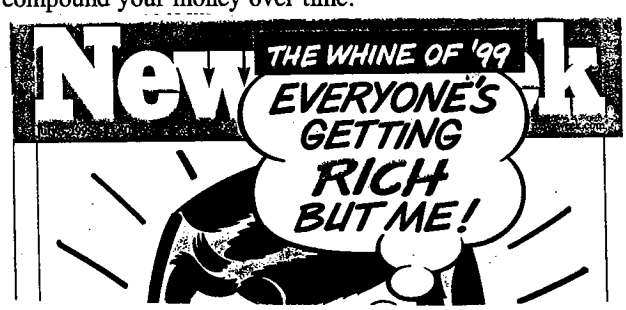
Of course, this is a much simple and less-brainy version of what Warren Buffett does with Berkshire Hathaway. What Buffett does and has done since the mid-1960s is buy basic, brand-name, monopoly-type stocks and hold them forever. His picks have been superb, and that has allowed him (with the help of a great bull market) to compound his holdings skyward. Buffett states that he loves a bear market, because a bear market allows him to re-invest his money in attractive companies, companies whose stocks have been battered by the bear.

Buffett buys only stocks that he understands rather than tech stocks or Internet stocks that he doesn't understand. And this is critical in compounding the Buffett way. For instance, even though Buffett is a very good friend of Bill Gates, he has never bought stock in Microsoft. His rationale: Buffett knows that people will be drinking Coke or shaving with Gillette blades or buying Geico insurance or eating See's candy 20 years from now, but he has no idea where Microsoft will be 20 years from now. Thus Buffett has a plan and a philosophy and what's more he sticks to it no matter what.

What's Buffett buying now? He's complaining that he's having a hard time finding anything to buy, and actually, Buffett hasn't taken a big position in any stock since 1995 (he has, however, bought out a few companies). And I have no doubt that Buffett is secretly hoping for a big bear market so that he can re-invest his money in some battered, blue-chip bargains.

Interestingly, the cover of the July 5 *Newsweek* carries the caption, **"The Whine of '99."** It then shows an anguished investor whining, **"Everyone's getting rich but me."** Inside the magazine the story headlines as follows: "The economy's booming. So why do so many of us feel we're missing out on the party? More than ever, achieving the American Dream is a game of chance -- and picking the right stock."

My answer to this is "Baloney," if your dream is to become rich, then you don't have to depend on luck and you don't have to pick a Cisco or a Microsoft (furthermore, the odds of doing that are very slim) -- if you seriously want to get rich you have to compound your money over time.



Compounding is a wealth-creating method that I have espoused ever since I started Dow Theory Letters in 1958. For those who are interested, I suggest you read "Rich Man, Poor Man" on my web site, which is www.dowtheoryletters.com.

Inflation or Deflation? Oil over $20, copper at 78 cents, lumber surging to 434, house prices sky-high, rents surging, luxury goods up, up -- all the signs of inflation (except, of course, for farm prices). Is this our future? As I see it, it's **our present, but everything now depends on the stock market.** If the stocks market holds or continues to rise, we'll see inflation and certainly that's what the bond market is telling us now. BUT, if the stock market tops out and heads down, I think, in view of our leveraged, debt-laden economy, we could see deflation, and deflation in a hurry. That's the way I see it. It's all in what the stock market does.

INVESTMENT POSITION: A key, maybe THE key, to this market is **almost total disregard of risk.** You can see it in the huge new highs in NYSE margin accounts. You can see it in the level of the earnings/yield. The earnings/yield on the S&P (EARNINGS divided by price) is 2.76%. This is not the dividend yield, it's the earnings/yield. The yield on the 91-day T-bill is now 4.51%. In other words, the yield (actual cash coming in) on a T-bill is 63% higher than the earnings/yield on the S&P. Investors are saying that corporate growth is so certain that it is worth far more than the guaranteed interest (free from state taxes) on a T-bill. Talk about extreme confidence, talk about allowing nothing for surprises, this market takes the cake. I've never seen anything like it.

I've said this before, and I want to repeat it. Investing in stocks is actually a method (assuming you buy the right stocks at the right time) of **beating time**. By that I mean that in stocks you are trying to become rich sooner -- trying to beat the certainty of becoming rich vs. compounding your money through time. Let me put it this way, if I could guarantee that you will live to age 150, I'd say forget about stocks, just compound your money in notes or bonds, and I will guarantee (it's a mathematical certainty) that you'll be safely, stress-free, rich before you're an old man or woman.

That's the value dilemma that confronts the sophisticated investor today. Of course, he's very aware of the RISK factor. Is it riskier buying stocks with little or no dividends, or it is riskier buying money market funds and missing a possible further rise in the stock market? And for some, there's also the matter of stress. In other words, if you buy stocks yielding say 1%, how much stress are you willing to take if those stocks head down? All of the above are questions that only you can answer for yourself.

A brilliant psychoanalyst once told me, "Richard, when you're young you worry about making money. When you're old, you worry about losing the money that you've made." So you have to ask yourself, which group are you in? Or do you want to be in either group? Ah, those are the questions few investment advisors ask. They don't ask them because most have never answered these questions in their own life.

Me, at this point I'm content to sit with mostly short-term fixed-income securities. I'm less interested in capital gains. I'm more interested in keeping the capital that I've gained. And as far as holding stocks yielding zero to 1%, I'm really more interested in avoiding stress. Greed and stress, they're the killers in the investment business.

NOTES & QUOTES: Down: Last week Europe's new single currency, the euro, broke below 1.02 and the talk is of a "one-dollar euro." Wonder how the Germans feel about giving up their powerful mark for a currency that has lost over 20% since its October high of 1.23? Speaking of losses, we should soon be hearing talk of a "major crisis on the farm," based on what's been happening to the grains. Corn from an October high of 2.95 broke to an incredible 1.87 last week. Wheat from an August high of 3.82 down to 2.38 last week. Soybeans down from a May '97 high of 9.03 down to last week's crushing low of 4.14. Cattle down, hogs literally crashing, cotton caving in. It's one of the worst disasters to hit farmers that I can remember.

* *

I've opined that we are entering the **century of the woman.** Events are confirming that opinion. We have a woman running for president. Women are even gaining power in the Mid-East nations. We have women dominating interest in Wimbledon tennis. As for the women's World Cup in soccer, the press and the sports world is flabbergasted. Well over 600,000 tickets have been sold. Every game televised. In Georgia 75,000 tickets sold. For the final game in Pasadena, the game was sold out a week ahead of time with 90,000 people to pack the Rose Bowl. States Rick Burton, director of the Warsaw Sports Marketing Center for the University of Oregon's college of Business, "My sense (of the World Cup) is that it is incredibly significant. My prediction is that this event will be the starburst, the magic mushroom, that causes Madison Avenue to recognize the power of women in sports. Not since the Beatles came here in 1964 have we seen anything in terms of its sociologic impact with American teen-age girls." **Russell Comment:** I saw almost all the women's World Cup games. They were terrific. I was amazed at the excitement and athleticism of these lady athletes. I took the phenomenal attendance as a watershed event, both for soccer and for women. The Women's Century, it's almost here.

* *

"Portals suffer as Internet surfers get more savvy," headlines *USA Today* (July 2). The piece continues, "Internet users increasingly are shunning portals -- Internet super-stations such as Yahoo, Lycos, and Excite -- in favor of specialty sites, according to significant new findings." This is exactly what I said months ago. I know in my own case, that I have found about 10 sites that I list on my "favorites" station; I click on most of these sites every day. As far as a portal or search engine, I might use one every few days or maybe once a week. The *USA* article goes on, "Experts say that the relatively flat growth of the huge sites that serve as clearinghouses for information is proof that as the net matures, sophisticated users are turning directly to sites that meet their needs best." **Russell Comment:** If you own any of the big portal stocks, mull the above over.

By the way, for **trends,** economic, political or social, I think *USA Today* does a great job -- maybe better than any other newspaper in the business. I've liked this paper from the day it started publication, and I've never missed an issue.

* *

Drkoop.com (Dr. C. Everett Koop) paid $89 million to AOL to be AOL's main medical "partner." It's not an exclusive, AOL will offer other medical advice. And I ask myself, how in the devil is Drkoop.com going to make any money as a medical advisor or even as a dispenser of pills when I can get all the medical advice I need from a dozen other sources? I'll say it again -- the Internet is going to lift competition for the consumers' dollar to a new level, and I mean a new **high** level.

* *

The Las Vegas gambling stocks are not doing well. Mirage has caved in from its April high of over 26 to last week's low of just over 16. Mandalay (MBG, they own Circus Circus) is down from April's high of 26 to last week's 19. Now we have Disney down from a high of over 42 in '98 and down to last week's low of just over 28. So I have to wonder, are consumers getting tired of spending? Going to a Disney park is now an expensive proposition. Las Vegas is now offering expensive rooms and the

shows are no longer bargains. The revolt of the consumer? Not yet, I think, but we're getting closer.

* *

It's wonderful: "1 trillion added to the surplus," screamed the headlines in *USA Today* (June 29). The article continued, "Clinton's news, which he heralded in a self-congratulatory South Lawn announcement, is likely to fuel debate." Well, it turns out that the one trillion they're talking about is the **projected budget surplus over the next 15 years.** "'The surplus for this year grew by $20 billion to $99 billion,' said Clinton, 'and the black ink for next year will include a $5 billion surplus even excluding the Social Security Trust Fund, the first such surplus in four decades.'"

Russell Comment: I don't know what the hell Clinton is talking about. According to *Barron's* (June 25) the current national debt is $5.602 trillion. Exactly one year ago the debt was $5.503 trillion. I took out my little calculator and I subtracted last year's figure from the current figure. Gosh, the difference is $99 billion. That means that the national debt increased by $99 billion over the last 12 months or an increase of almost $2 billion a week. And this is in boom times. So where is Clinton's trillion dollar surplus coming from? What is he talking about? What's he smoking? Maybe some subscriber can enlighten me.

$1 trillion added to surplus

Plea deal may signal the end of

How to use the windfall

Lawmakers sharpening carving knives

GOP's calls for tax cuts get louder

Clinton Says Debt Can Be Erased by 2015

President Sees Tax Cuts, Medicare Drug Coverage Possible Due to Surplus

The Surplus Grows, Again

Projections from the White House, in February and in June, and the Congressional Budget Office for federal budget surpluses, including Social Security; in billions of dollars

$600

What is obvious is that Clinton has become a total "lame duck president," burdened by a long list of moral question marks (to put it politely). But Clinton, still looking for something to light up his "legacy," is rushing from foreign wars to domestic edicts, producing what is now known as "the message of the day." Gun control, halting genocide, boosting disadvantaged areas, international police forces, Hollywood morality, teen-age violence, the Clinton list goes on and on. Is anyone listening? Now the rumor is that once his term is over, Clinton could run for a Senate position out of Arkansas. Thus he would be doing what he's been doing all his life -- campaigning and raising money. Relief from the Clintons, that's what we need -- relief.

* *

Bill's friends: John Huang, a felon, pleaded guilty May 25, 1999. Charles Trie, a felon, pleaded guilty May 21, 1999. Webster Hubbell, a felon, pleaded guilty Dec. 6, 1994. Susan McDougal, a felon, guilty verdict May 28, 1996. James McDougal, felon, guilty verdict May 28, 1996. Dan Lasater, felon, guilty plea 1986. David Hale, felon, guilty plea March 22, 1994. Jim Guy Tucker, felon, guilty verdict May 28, 1996. **Russell Opinion:** The Clintons have spread corruption in the state house and in the White House. Wherever the Clintons have been, at the very least there's been chaos. **Russell Prediction:** If Hillary runs for the Senate in NYC there'll be chaos for sure but hopefully no corruption (the latter because she'll be watched too carefully and because politics in New York are a lot tougher than it is in Arkansas).

* *

Now here's an interesting commentary on life in America. Last year Americans spent roughly $7 billion on movie tickets. They spent $26 billion on books. They spent $450 billion on groceries. And they spent $630 billion on legal gambling (on which they lost $50 billion). No one knows how much Americans spent on illegal gambling. What this tells me is that Americans have a great desire to make money (via gambling) without working. Secondly, it shows me that Americans have unbounded confidence in the future, so much so that they don't believe it's necessary to save. A final statistic -- one third of US families don't have as much as one thousand dollars in liquid assets (cash). So baby, let the good times role.

* *

Is there any stopping Wal-Mart? The giant company is now moving aggressively into Europe and two weeks ago WMT filed with federal regulators to buy an Oklahoma thrift bank. This would allow the mammoth to provide a full range of financial services. Oh, I forgot. WMT is also becoming a big factor in the grocery business. What's next -- WMT into stock brokerage? Hey, that wouldn't surprise me.

* *

The massive increase in the money supply first impacted on stocks and real estate. But now it is sifting into every item -- gasoline, food, autos, services, health care, clothing, rents, school tuition. In a *USA Today/CNN* survey two weeks ago, 54% of the adults surveyed said they noticed higher prices on the items they normally buy. Says *USA Today,* "This is a dramatic shift from just a few months ago."

CONSUMERS FEEL PINCH

Inflation starts to weigh on USA

Effect: Fewer trips to vet, pricier grapes

Prices on the rise

People around the USA enjoyed unusually low inflation the past few years. But a robust economy, soaring consumer spending and record-low unemployment are beginning to create wage and price pressures.

Cost of living

Consumer price index, compounded annual rate for the three months ending

But the spreading inflation hasn't stopped US consumers from continuing on their wild buying binge. At the last report, consumer savings dropped to a minus 1.2%, lowest savings rate since the Great Depression (at which time families were forced to dig into their savings because they had no earnings and they had to eat).

Personal Income Climbs Only 0.4%; But 0.6% Spending Gain Widens Gap

Savings rate plummets deeper into negative territory as America's buying binge continues

Spending Outpaces Income Gains In May

Income And Spending

1%

0.8

Monthly change Income Spending

Year-Over-Year Change

7%

Spending

* *

I'm a big fan of the *International Herald Tribune.* An article about the *IHT* appeared in the June 28 *New York* magazine. The *IHT* is a product of the combined editing of two other great newspapers, the *Washington Post* and the *NY Times* (it is owned jointly by both). Writes *New York* magazine, the *IHT* is "the best newspaper in the world . . . It's succinct, pithy, well-written (having been first edited in Washington or New York, stories are edited again by the *Tribune* editors in Paris), and tensely paced -- it takes two bilge engines, the *Times* and the *Post*, and reduces them to their purest essence -- and adds an eye-opening new perspective (i.e., a world outside the United States). **Russell Comment:** I love this paper. It provides me with news and views that I can't get anywhere else. Try it: (800)882-2884.

* *

I've always been of the opinion that the fax machine and the computer brought down Communism in Soviet Russia. Once the Soviet people saw what was happening in the outside world, saw the prosperity of the outside world, saw through the lies that the Soviet leaders were telling them, it was all over. The Soviet leaders had taken a calculated risk. They knew that the Soviets had to get into the modern world or be left behind as a stone-age nation. That means allowing the populace to have access to computer and faxes. And of course that spelled the end.

Now the leaders of China face the same dilemma. An article in the *Washington Post* notes, "Despite official Chinese efforts to control the Internet and to limit its use as a method of disseminating news, rumors, lies and truths unfavorable to China's government, a growing army of Chinese web surfers is scaling fire walls, posting radical criticisms of government policy and engaging in deep, unregulated discussions of China's

fate. Significantly, much of the discussion is occurring on Internet sites that are based in China and are thus regulated by government." **Russell Comment:** In time, this free access to news and information will change the Chinese situation. But it will take time. Hopefully, the US government will not interfere with this evolutionary process.

* *

I received a call from Bernadette Berger on June 30, telling me that her husband, Bill Berger, had died. He was founder of the Berger Funds. Bill was a huge man with a huge heart, a noted collector of British art, an intellectual, a man interested in everything, a man who knew the meaning of life and the meaning of values. Bill was a subscriber for many years. I'm sad to say "Good-bye" to Bill Berger -- rest in peace, my friend.

* *

Stanley Kubrick's last and final film, "Eyes Wide Shut" will open in the theaters July 16. It will star Tom Cruise and Nicole Kidman, both of whom appeared on the cover of the July 5 *Time* magazine along with a feature story on the new Kubrick film (which, by the way, I hear is both sensational and terrific). Kubrick was a long-time subscriber and was always fascinated with gold. Kubrick, living in a huge compound outside of London, refused to fly or even to travel, although he was particularly interested in the effects of aviation and bombing during WWII. Knowing that I had been a bombardier during the War, Kubrick sent me a book on Bomber Harris, who was in charge of the British Air Force during the war. I suspect that Stanley had a film in mind about this subject and in a letter to me he hinted as much. The magazine section of the July 4 *NY Times* ran a cover story on Kubrick. Wrote film director John Milius, "Stanley loved military history and said, 'I feel perfectly safe in my love of war and military history because I know I'm a devout coward. I'd never go to war, but I'd like to experience it if I knew I wasn't going to get hurt.'"

So two fantastic men died in the last few months. I was glad to have known both of them. Stanley was 70, Bill was 73. Both had great productive lives; both left their marks on us, the living.

* *

Want to live where everybody else wants to live? OK, then try the fastest-growing cities with populations over one million. Here they are. Number one is Phoenix, having grown by 21.3% since 1990 and with a current population of 1.29 million. Number 2 is San Antonio, population up 14.3% since 1990, current population 1.14 million. Third is San Diego, population up 9.9% since 1990, current population now 1.22 million (SD is now 6th biggest city in the nation). Number 4 is Houston and number 5 is Dallas. Note that all five cities are in the West, three in Texas, one in California, one in Arizona. Of cities over 100,000 but less than one million, Las Vegas is the fastest growing, up 56.2% and with a current population of 404,000.

* *

Speaking of cities, the uncomfortable fact is that almost every city, certainly the major cities, are "stopped up" with burgeoning populations. To get out of a city, to get to a beach, is becoming a tortuous experience. Which has to do with where I live.

The markets never take a "vacation," and as a result I haven't taken as much as a 10-day vacation since 1958. Long ago I surmised that since I wasn't going to be able to take any long vacations, I had better move to a vacation-type city. The city I picked was San Diego, which at the time, 1961, was amazingly "empty" (population in '61 was only 550,000). When I moved to San Diego, I knew very little about the place. But I did feel at home near a university, so I rented a house practically on the campus of San Diego State University. Six years later, in 1967, I moved to La Jolla -- I bought a house situated about two hundred yards from the Pacific Ocean (I paid $57,000 for that house). I've moved a few times after that, but my current house is still only a few hundred yards from the ocean. The point is that even La Jolla is now becoming crowded. Where the streets used to be semi-empty, they are now filled with cars (and in the summer, tourists and tourists' cars), and I note the more cars, the ruder the drivers. However, I can walk to the beach from my house, I can bike to the center of La Jolla in 10 minutes, and as long as I stay in La Jolla I can keep life's many frustrations to a minimum. But as far as I'm concerned, one of the biggest frustrations is travel, which is why I now travel as little as possible. People ask, "Russell, where are you going on vacation?" I answer, "Listen, it took me 35 years to get to La Jolla, why would I want to leave?" And it's true; I think that La Jolla is about the best vacation spot in the world. It's got the weather, beaches, good food, modest accommodations, beautiful women (ah, the men are OK), and good shopping. You're near the mountains, the desert, the ocean, Mexico and LA. As the old song runs, "Who could ask for anything more?"

* *

I've told the story about Warren Buffet, who was asked what he wanted engraved on his grave stone. He said he wanted the words, "God, he was old." Now comes this one from a subscriber. You're lying in state in your lovely, satin-lined coffin. What would you want someone to say as he was staring at you? Answer: "Look, he's moving!"

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College students' ambitions change with the times. The times are now prosperous, and this from the latest issue of Stanford University magazine. Where the grads go: Business -- 31%; Engineering/computer science -- 19%; Health/sciences/biotech -- 11%; Arts/media/communication -- 6%; Education -- 6%; Non-profit -- 6%; Professional sports -- 4%; higher education -- 3%; military -- 3%; law -- 2%. **Russell Comment:** They tend to go where the money is. And they know that there are too many lawyers. By the way, Mr. Stanford named the University after his young son, who died in Europe. The real name is **Leland Stanford Jr. University.** I know because this is what's engraved on my wife Faye's degree. Factoid: Stanford has sent more athletes to the Olympics than any other college or university in the US. Second factoid: Stanford bonds are rated AAA, better than the bonds of the state of California (and they're state tax-free, as well).

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Speaking of money, according to the latest UN report, organized crime's clout is fourth in the world -- with an income of $1.6 trillion a year. By comparison, the UK's economic output is just over $1.28 trillion. The biggest growth area for organized crime is drugs, which are now a bigger global industry than vehicle manufacturing. Over the past 10 years production of opium has more than tripled and production of coca leaves has doubled. The illegal drug industry supplies 200 million customers and is worth $400 billion or 8% of world trade. Trafficking in girls and women as a business is worth $8 billion a year. Says the UN, "Globalization creates new and exciting opportunities, and among the most enterprising and imaginative opportunists are the world's criminals." The criminals are going international, for instance, the Chinese triads are in the restaurant trade in London, the Sicilian mafia is selling heroin in NYC, and the Japanese yakuza are financing pornography in the Netherlands.

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For Catholics, suicide is a sin. In Japan, it is an honorable way out. Suicide in Japan has hit a record level, 33,000 suicides in 1998, 35% over 1997. A total of 713 corporate managers killed themselves in '98, up 38% from '97.

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Day-traders: They say that there are over 10,000 amateur day-traders on the net at any given time, all trying to beat the These traders are pitting themselves against the floor traders who are professional, who don't pay commission, who live with the market, and who have the advantage in many cases of knowing what's on the books (orders to buy and sell and at what prices).

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Rents on both coasts are heading up, up and away. Rents in California have definitely been climbing. For instance, the average price for a premium-quality 1,000-square foot apartment now tops $1,300 a month. The highest in California is $1,912 for a 1,000-square foot apartment in the Bay Area, the "bargain" rate is $1,132 in Orange Country. Here in San Diego the average price runs $1,151, that is, if you can find one.

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Here's one the US press didn't play up. President Boris Yeltsin of Russia voided the execution of all 716 prisoners on Russia's death row. That leaves only China and the US as the major nations which allow capital punishment. What do I think of capital punishment? I'm against it in theory, but if some one killed a member of my family I would be for it. I'm convinced that capital punishment does not prevent murder, but the desire for revenge, an eye-for-an-eye, is strong. "Vengeance is mine," sayeth the Lord. Right, but when it comes to your own family --

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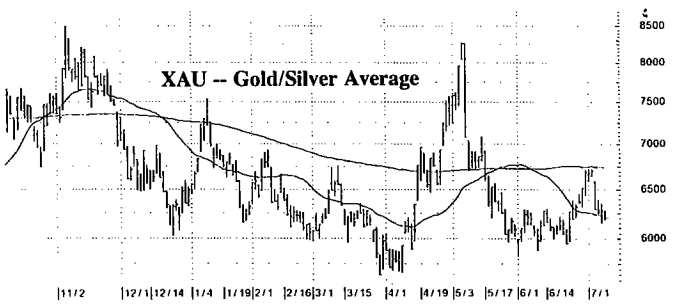
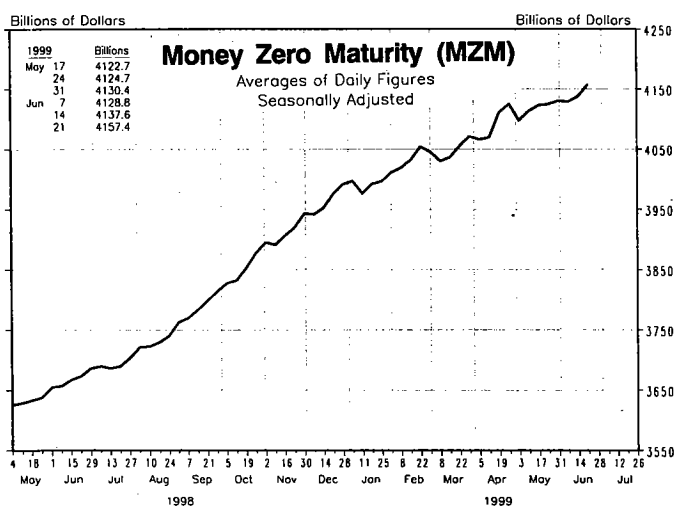
The US under Clinton has decided to be moral policeman to the world. In the eyes of many nations, the US has become the world's butt-insky, to others it has become the world's leading bully. Up to now, the US has enjoyed the most advanced and powerful military system in the world. The US can bomb Iraq or the Serbs with impunity. But it won't be long until many more, even most, countries have nuclear capabilities. Every nation certainly wants to be nuclear. They'll want nuclear capabilities if only to protect themselves against the will and sovereignty of the US. This will make the world a much more dangerous place.

GOLD: Gold, the metal has been in the dumps. I'm not going to go into all the politics behind gold, I'm just going to take gold at face value. With the UK announcement that it's selling 125 tons of its gold reserves, the metal plunged to a 20-year low. On July 6 the August gold contract dropped to a low of 256.50. Could that have been the low? Mebbe. The 34-day moving average for August gold is 264, six bucks above where August gold is now. So that's the upside target for August gold -- 264. What else can I say, except that the low price for gold is playing hell with the politics and gold mines of South Africa. The gold industry is a huge factor in the S. African economy, and gold-unemployment is becoming a problem there.

Interestingly, XAU, the Gold/Silver Average, has not confirmed the new lows in gold. XAU hit a low of 56.42 on March 30. XAU rallied strongly to 82.62 in May 7, then plunged back down on the metal's weakness. But on the renewed weakness, XAU never closed below 60. XAU is now at 62, holding just above its 34-day MA. **The refusal of the stocks to confirm the new lows in the metal is encouraging.** Gold-philes, remain in the praying mode, all is not yet lost.



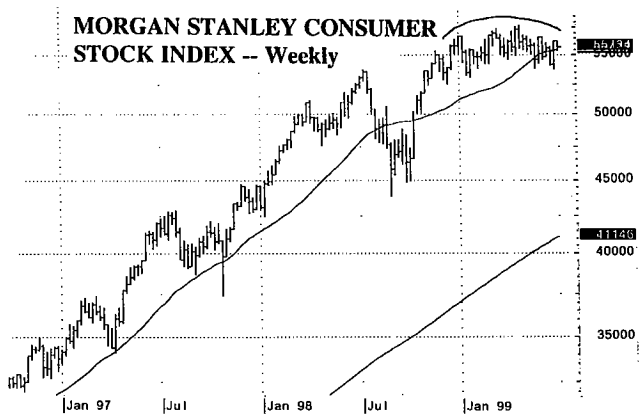


NEXT MAILING: July 28, 1999

SOME CRITICAL CHARTS: The first chart (courtesy of the St. Louis Fed) shows **"Money of zero maturity,"** which is literally cash in the hands of consumers. The chart tells the story -- there's no shortage of cash.

I notice that as earnings come out, many of the retail stocks are now selling off on good news. It's as if these stocks have discounted the best, and informed investors are selling the stocks as the news comes out. The other item I note is that although bonds have turned up, the market has not been that enthusiastic about the normally bullish bond upturn. What does that mean? Could it mean that the market is seeing slower business ahead (which would be bearish for stocks and bullish for bonds)? Just a thought, just a thought.

This chart shows Morgan Stanley's WEEKLY chart of their **Consumer-Stock Index**. What's interesting here is that with all the frantic consumer buying, the Consumer Index appears to be rounding over. And it's holding just above its 34-week moving average. Consumer spending now constitutes two-thirds of the nation's Gross Domestic Product, so this chart takes on increased significance. We'll watch it, but the chart does suggest that the market may have discounted the best of consumer spending.



LATE NOTES: As this is written, my PTI is within a few points of a new high (chart, page 2). With stocks so over-valued and with breadth and the Transports lagging, I now take the stock market on a **day-to-day basis**. Subscribers on my web site can now follow the PTI on a daily basis, a decided advantage.

The story remains the same with the big-cap stocks leading the market higher and most recently the **tech stocks** doing the real upside work. Last week with the Dow, the S&P and the Nasdaq all hitting new record highs, there were actually more declines on the NYSE than advances. Extraordinary action.

What's happening is that selling pressure is diminishing while buying power creeps higher. In other words, people are sitting with their stocks, **refusing to sell or take profits**, while buyers are force to hit the bids, pushing the market higher.

Currently, the D-J Transports are over 350 points below their record high, meaning that (again) we have a major non-confirmation between the Dow and the Transports. The 1998-'99 non-confirmation was erased this year when Transports advanced to a new highs. Can they do it again? We'll see.

I can't believe that there's nothing in the newspapers about what's happening -- **deflation on the farms.** Corn, beans, wheat, hogs, cotton, they're not just declining -- they're crashing. I've never seen anything like it. It's a disaster in the making (is this what gold has been telling us?).

In the meantime, the euro (Europe's single currency) has dropped to 1.017 to the dollar. Are we looking at a euro worth less than a buck? The Dollar Index on Monday (July 12) surged to a new high. **Conclusion:** (1) Take a trip to Europe. (2) Don't hold European stocks. (3) Watch the US trade balance.